

Investment Policy Statement for  
The ARC Community Trust of Pennsylvania

**Purpose**

The Board of Directors of the ARC Community Trust of Pennsylvania (“ACT Board”) has adopted this Investment Policy Statement (the “IPS”) in recognition of its responsibility to supervise the investment of assets held in the various trusts for which the ARC Community Trust of Pennsylvania (“ACT”) serves as trustee and to provide direction to the independent professional investment managers (the “Investment Managers”) engaged from time to time to assist ACT in this regard. Any amendment or modification of this IPS must be in writing and be adopted by the ACT Board upon recommendation of the ACT Board’s Investment Committee. This Policy is intended to be a public document available to the beneficiaries of the trusts administered by ACT and any interested party.

With respect to a particular trust, ACT or its Investment Managers may act contrary to the directives or limitations contained in this IPS, where that trust contains instructions within the Trust requiring the Trustee to act in a manner that is inconsistent with this IPS. For example, if a particular Trust document requires the Trustee to invest trust assets in a manner that provides for less diversity of investment than would be required by the terms of the IPS, ACT may comply with the terms of the Trust without being deemed to be in violation of this IPS. Any deviation with respect to a particular trust will be noted by separate memorandum setting forth the language in the trust concerning the investment and will be transmitted to the Investment Managers and the trust beneficiary or his or her representative.

**Investment Managers**

ACT shall engage independent professionals to invest the assets held by the trusts that ACT administers. The Investment Managers shall be independent professional investment advisors that must be approved by the ACT Board and shall be either (1) registered under the Investment Company Act of 1940, (2) a bank, as defined in that Act, or (3) such other person or organization authorized by applicable law or regulation to function as an investment manager. The Investment Managers are retained by ACT on a fee for services basis and are not employees of ACT. The Investment Managers shall be supervised by ACT, but are solely responsible for the day-to-day investment management of trust assets in accordance with this IPS, any policy adopted for an individual trust, if different from this IPS, and in accordance with Pennsylvania’s Prudent Investor Rule, 20 Pa.C.S.A. §§ 7201 *et. seq.*

## **Investment Objectives**

The investment objectives of ACT with respect to client Trusts are to preserve, protect and increase Trusts' assets by earning a total return (dividends, interest, realized and unrealized capital gains/losses less expenses) for each Trust appropriate to its time horizon, liquidity (available as cash) needs, and risk (fluctuation in investment value) tolerance.

ACT seeks to manage Trust assets consistent with the needs of the beneficiaries as communicated to ACT. Since each beneficiary has unique needs, the investment horizon over which Trust assets will be invested will vary based on the aggregate lifespan and disbursement needs of the individual beneficiaries of each Trust. Individual Trusts will be identified as having short, intermediate, and long-term investment horizons. Short-term shall be defined as less than 3 years, intermediate-term as 3-15 years and long-term as greater than 15 years. Initial classification of a trust shall not preclude reclassification at a later time as the circumstances surrounding the particular trust dictate.

ACT cannot target or benchmark specific return rates because the trusts for which ACT acts as trustee have many different durations, values, goals, beneficiary needs and characteristics, risk tolerances and directions or limitations. However, ACT endeavors that its trust total return net of fees shall at least equal appropriate benchmark indices. Similarly, ACT endeavors to set investment risk levels for trusts that are within reasonable ranges relative to appropriate benchmark indices. ACT will consult with the Investment Managers to set appropriate goals, durations and risk levels for each individual trust.

## **Asset Allocation**

Individual Trust accounts of less than or equal to \$250,000.00 in value may use mutual funds to effect investment strategies suitable to the beneficiary's time horizon and current supplemental needs requirements. Individual Trust accounts in excess of \$250,000.00 in value may, in addition to the use of mutual funds, utilize individual equities and individual fixed income securities suitable to the beneficiary's time horizon and current supplemental needs requirements.

Asset allocation restrictions may be waived for assets purchased for the primary use of the Trust beneficiary. For example, the asset allocation restrictions contained herein shall not preclude a Trust from purchasing a residence or vehicle for the use of the beneficiary of that Trust. Assets such as real property or vehicles purchased by and/or held in the name of the trust shall not be included in the asset allocation of a particular trust; rather, the asset allocation shall pertain only to the assets managed by the Investment Manager.

In order to achieve the greatest likelihood of meeting investment objectives and the best balance between risk and return, ACT, in consultation with the beneficiary or the beneficiary's representatives, shall consider all factors that are expected to impact the determination of an appropriate investment horizon including, but not limited to, the size of the trust and whether any additional contributions are anticipated; the life expectancy of the beneficiary; the specified trust termination date, if any; a projection of the needs of the beneficiary, including regular expenses and any anticipated significant expenses; investment and distribution restrictions contained in the

trust document; and the beneficiary’s risk tolerance. ACT shall communicate all relevant information to, and consult with, the Investment Managers, who should determine an investment horizon for each individual trust; i.e., (i) Short-Term, (ii) Intermediate Term or (iii) Long-Term. The Investment Managers should allocate assets within the restrictions indicated above and in accordance with the following target and ranges for each investment horizon as follows:

Short Term

<b>Asset Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
Money Market, Cash, Certificates of Deposit	40%	50%	60%
Equity	0%	0%	0%
Fixed Income	40%	50%	60%

Intermediate Term

<b>Asset Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
Money Market, Cash, Certificates of Deposit	0%	10%	20%
Equity	20%	30%	40%
Fixed Income	50%	60%	70%

Long Term

<b>Asset Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
Money Market, Cash, Certificates of Deposit	0%	10%	20%
Equity	50%	60%	70%
Fixed Income	20%	30%	40%

The discretionary fund, comprised of the collective funds remaining in individual accounts with the Pooled Trust upon the death of a beneficiary, shall be invested in accordance with the long-term time horizon.

**Diversification**

The equity and fixed income portions of any Trust portfolio should be well diversified to avoid undue exposure to any single economic sector, industry, or individual security. No more than 10% of the equity or fixed income portion of any Trust portfolio based on market value shall be invested in the securities of any one issuer other than fixed income pools of investments such as U.S. Government issued securities. Except U.S. Treasuries, no more than 10% of the fixed income portion of any Trust portfolio based on market value shall be invested in securities of any

one issuing corporation at the time of purchase. Investments shall be diversified across national and international markets as well.

## **Guidelines for Portfolio Holdings**

### Equities

Investment in common and preferred stocks shall be restricted to readily marketable securities of corporations that are actively traded on major domestic and international exchanges including, but not limited to, the NASDAQ, NYSE, and BM&FBOVESPA, NIKKEI, FTSE 100, DAX and Hang Seng.

The preponderance of equity investments shall be in individual securities or mutual funds that invest in the stock of U.S. domestic large, mid and small capitalization companies, with allowance for some exposure to international equity markets in the discretion of the investment manager.

### Fixed Income

Fixed income shall be high quality, marketable securities, with the preponderance of investments in (1) U.S. Treasury, federal agencies, and U.S. Government guaranteed obligations, (2) underlying investment grade, minimum A rating or better by Moody's and/or Standard & Poor's, corporate and state and municipal bond issues, including convertibles. Some allowance is made for exposure to international fixed income markets in the discretion of the investment manager.

Active bond management is encouraged and may require transactions that will lower the return or change the maturity of the portfolio in anticipation of market changes. Holdings of individual securities must be large enough for liquidation. Investment managers shall choose fixed income investments with maturities appropriate to the investment horizon of each individual trust.

### Cash

Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1 or P-1, as established by Moody's or Standard & Poor's. Banker's acceptances, certificates of deposit and savings accounts must be made at qualified financial institutions, defined as a bank, bank and trust company, trust company, national banking association, insurance company or other financial services company whose unsecured long-term debt obligations in the case of a bank, trust company, national banking association or other financial services company or whose claims-paying abilities in the case of an insurance company are rated in any of the three highest rating categories by Moody's or Standard and Poor's.

### Mutual Funds

The diversification restrictions of individual stocks and fixed income securities purchased and held in the total portfolio shall not apply to similar investment instruments held in SEC registered mutual funds specifically approved by the Committee. Every effort shall be made,

to the extent practical, prudent, and appropriate, to select mutual funds that have investment objectives and policies that are consistent with this Investment Policy. However, given the nature of mutual funds, it is recognized that there may be deviations between this Investment Policy Statement and the objectives of the mutual fund. The Investment Managers will utilize “No- Load” or “Load-Waived” mutual funds unless given pre-approval for any investment in funds that feature back-end, front-end or any other type of load, charge or sale commission.

### Investment Fund Selection System

The Investment Managers will consider the following criteria in recommending and selecting particular investment funds, except that the following criteria shall not apply to the selection of index funds. The following criteria shall apply only at the time of the selection and review of investment fund, unless otherwise specified below.

- **Fund History**  
Each investment fund is required to have a minimum of five years of history.
- **Relative Performance**  
Each investment fund is required to have performed in the top one-half of its investment category on both a three and five year basis.
- **Manager Tenure**  
Each investment fund is required to have had the same portfolio manager or a member of the same management team in place for at least the previous two years. The Investment Manager will notify the Investment Committee as soon as practicable of any substantial fund management changes.
- **Minimum Assets**  
All investment funds are required to have a minimum of twenty-five million dollars in assets under management.
- **Investment Fund Category Rating**  
All investment funds are required to have an investment category rating in the top two-thirds of their respective investment fund category as rated by Morningstar, Lipper or other widely accepted evaluation service.
- **Expenses**  
Each investment fund selected is required to have an overall expense ratio that as close as possible to the average expense ratio for the respective investment fund category. ACT and the Committee have a strong preference for lower fee funds.

Each Investment Manager will meet no less than annually with the ACT Board to review performance of all funds under management.

## International Equity and Fixed Income Securities

Investment managers shall have authority to invest in international equity or fixed income mutual funds or individual securities; however, in no event shall the total allocation to investments in international securities of any individual trust fund exceed 20% of the overall asset allocation.

## Prohibited Securities

Certain securities, investments or securities transactions are specifically prohibited without amendment to this Investment Policy. These are:

1. Privately placed or other non-marketable debt
2. Lettered, legend or other so-called restricted stock
3. Options or future contracts
4. Uncovered short positions
5. Short positions in any individual stock, without the prior written approval of the Settlor (for an individual Trust) and the Committee
6. Purchase/trading of commodities or foreign currency, except that commodities funds may be utilized to obtain appropriate diversification<sup>1</sup>
7. Securities of any party in interest
8. Venture capital or leveraged buyout funds
9. Margin purchases
10. Derivatives for which no actively traded market exists
11. Unlisted securities
12. "Penny" stocks
13. Gems and works of art
14. Synthetic positions with inherent unlimited loss risk profile and other speculative derivatives.

A Mutual Fund that invests 5% or less of its total assets in investments listed as prohibited securities shall not be deemed a prohibited security, solely as a result of those investments.

## Safekeeping

All securities shall be held by a custodian appointed by the Committee for safekeeping. The custodian may or may not be a related company to the Investment Manager, subject to the approval of the Committee. The custodian shall produce statements monthly listing the name and value of all assets held, and the dates and nature of all transactions. Assets of Client Trusts held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts.

Approved by the Board of Directors July 23, 2014

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<sup>1</sup> In no event shall investment in commodities funds exceed 5% of the overall asset allocation for any individual trust fund.